



Treasury Inspector General for Tax Administration

TRENDS IN COMPLIANCE ACTIVITIES THROUGH FISCAL YEAR 2006

Issued on March 27, 2007

Highlights

Highlights of Report Number: 2007-30-056 to the Internal Revenue Service Deputy Commissioner for Services and Enforcement.

IMPACT ON TAXPAYERS

During this annual review, TIGTA analyzes information from the Internal Revenue Service's (IRS) management information system reports to determine the trends and changes in the major areas of compliance. Overall, many compliance activities increased and results improved during Fiscal Year 2006. Continued effort to improve compliance is important to maintaining the integrity of the voluntary tax compliance system.

WHY TIGTA DID THE AUDIT

This audit was initiated at the request of the IRS Oversight Board to provide statistical information and trend analyses of that information. Data were obtained from various IRS management information systems.

WHAT TIGTA FOUND

Many compliance activities increased and results improved during Fiscal Year 2006. Since Fiscal Year 2000, the IRS has been reversing many of the downward trends in compliance activities that had occurred in prior years. Some of the positive changes can be attributed to management emphasis on the Collection and Examination programs. Over the last few years, the Small Business\Self-Employed Division has implemented reengineering and organizational changes, and both the Collection and Examination functions continue to work toward improved workload selection methods.

The level of compliance activities and the results obtained in many Collection function areas showed a continued increase. The use of collection enforcement tools was greater and enforcement revenue collected continued to increase (to \$48.7 billion), but the total dollar amount of uncollected liabilities increased to \$271 billion. However, the gap between new account receipts and closures narrowed slightly during the year.

The overall percentage of tax returns examined increased by just over 4 percent, and the number of field examiners increased by just over 9 percent. However, the percentage of tax returns examined is still 27 percent lower than it was in Fiscal Year 1997.

The number of tax returns of individuals examined increased. However, 82 percent were conducted via correspondence examinations, which are usually not as comprehensive as face-to-face examinations.

The number of corporate tax returns examined decreased 1 percent, after increasing 71 percent in Fiscal Year 2005. However, the number of these examinations has decreased 59 percent since Fiscal Year 1997.

Continued effort to improve compliance is important to the integrity of the voluntary compliance system. According to a tax gap strategy document dated September 2006, the tax gap for Tax Year 2001 is estimated at \$345 billion. The strategy document provides a broad base on which to address the tax gap but depends on future budget funding to provide detailed strategy elements. The President's Budget Proposal for Fiscal Year 2008 includes an increase of almost 6 percent for Collection and Examination function enforcement.

WHAT TIGTA RECOMMENDED

Due to the nature of this review, TIGTA made no recommendations in the report. However, key IRS management officials reviewed the report prior to issuance and agreed with the facts and conclusions.

READ THE FULL REPORT

To view the report, including the scope and methodology, go to:

<http://www.treas.gov/tigta/auditreports/2007reports/200730056fr.pdf>.